

Message Text

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ACTION TRSE-00

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H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02

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UNCLAS BRASILIA 4370

MEXICO CITY PASS CUNCUN FOR ASST. SEC. PARSKY

E.O. 11652: N/A

TAGS: EFIN ETRD BR

SUBJECT: SECRETARY SIMON'S VISIT

1. MINISTRY OF FINANCE HAS RELEASED STATEMENT IN NAME OF FINANCE MINISTER SIMONSEN, WHICH WAS PUBLISHED IN MAJOR NEWSPAPERS TODAY (MAY 18), MAKING FOLLOWING POINTS IN EFFORT TO CLARIFY SOME OF THE TOPICS COVERED IN JOINT COMMUNIQUE ISSUED DURING SECRETARY SIMON'S VISIT TO BRAZIL BUT INCORRECTLY INTERPRETED BY SOME SECTORS OF THE BRAZILIAN PRESS: (SEE BRASILIA 4344)

A. WITH RESPECT TO CONSULTATIVE MECHANISM, STATEMENT SAYS THAT IT "WILL NOT BE AN ORGAN TO CARRY ON ACTIVITIES WHICH ARE PARALLEL OR IN COMPETITION WITH EXISTING GROUPS ... THE CONSULTATIVE GROUP, AS INDICATED IN THE COMMUNIQUE, IS MERELY DESIGNED TO

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PERMIT, THROUGHT A MORE FORMAL MECHANISM, THE

REALIZATION OF CONSULTATIONS ON SUBJECTS OF INTEREST TO THE TREASURY DEPARTMENT AND THE MINISTRY OF FINANCIA."

B. THE COMMUNIQUE, IN ADDITION TO OPENING NEW OPPORTUNITIES FOR US DIRECT INVESTMENTS IN BRAZIL, ELIMINATED A NUMBER OF IRRITANTS WHICH WERE CREATING A PSYCHOLOGICAL CLIMATE WHICH WAS WORKING AGAINST INCREASING TRADE BETWEEN THE TWO COUNTRIES.

C. THE FREEZING OF COUNTERVAILING DUTY RATES ON BRAZILIAN SHOES WILL MAKE IT POSSIBLE FOR THE EXPORTS OF THIS PRODUCT TO THE US TO INCREASE UP TO 40 PERCENT IN 1976. "DURING THIS PERIOD THERE WILL NOT BE IN BRAZIL ANY REDUCTION IN THE CREDITS GRANTED TO THE SHOE INDUSTRY."

D. WITH RESPECT TO LEATHER HANDBAGS, THE WAIVER OF THE COUNTERVAILING DUTIES HAS IMPROVED THE COMPETITIVE POSITION OF THIS INDUSTRY. BEFORE THE WAIVER, THE INDUSTRY FACED A COUNTERVAILING DUTY OF 14 PERCENT AND A TOTAL CREDIT OF 24 PERCENT, NOT ALL OF WHICH COULD BE UTILIZED. THE DIFFERENCE BETWEEN THE COUNTERVAILING DUTY AND THE EXPORT CREDITS WAS 10 PERCENT. WITH THE ELIMINATION OF THE 14 PERCENT COUNTERVAILING DUTY, AND WITH THE REDUCTION OF THE INCENTIVES TO 16 PERCENT, THIS DIFFERENCE HAS BEEN INCREASED TO 16 PERCENT. (COMMENT: THE STATEMENT MAKES NO REFERENCE TO FURTHER PHASE DOWN).

E. ON SOYBEAN OIL, STATEMENT INDICATES THAT QDOPAMTHE RECENT DEVALUATIONS OF THE CRUZEIRO THERE IS NOT NEED FOR EXPORT CREDITS TO BE ABOVE 14 PERCENT, AND THAT IS WHY THE ICM/IPI CREDITS WERE REDUCED FROM 20 PERCENT. STATEMENT SPECIFIES THAT CHANGE AFFECTS ONLY SOYBEAN OIL AND THAT SOYBEANS AND OTHER SOY PRODUCTS WERE NOT INVOLVED.

F. STATEMENT NOTES THAT PROBLEMS RELATING TO SHOES, LEATHER HANDBAGS AND SOYBEAN OIL HAVE BEEN UNCLASSIFIED

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SOLVED AND THAT THERE "DOES NOT EXIST AT THE MOMENT ANY NEED FOR ADDITIONAL INCENTIVES -- EVEN OF THE CREDIT TYPE -- FOR MAINTAINING OR EVEN INCREASING EXPORTS OF THESE PRODUCTS. THE SHOES, LEATHER HANDBAGS AND SOYBEAN OIL SECTORS WERE CONSULTED ON THE AGREEMENT AND GAVE THEIR APPROVAL."

F. FINALLY, STATEMENT INDICATES THAT THE MINISTER

DOES NOT PLAN TO CHANGE THE LEVEL OF CREDITS
APPLICABLE TO OTHER PRODUCTS. IT NOTES, HOWEVER,
THAT IN THE FUTURE THERE CAN BE A REVISION IN THE
FISCAL INCENTIVE LEGISLATION. SUCH CHANGES WOULD BE
DICTATED BY BRAZIL'S NEEDS AND NOT BY TRADE ACT SINCE
FUTURE POINTS OF CONFLICTS WITH THE US CAN BE
SOLVED THROUGH THE CONSULTATIVE MECHANISM.
FUTURE CHANGES WILL BE DESIGNED
TO RATIONALIZE THE EXPORT INCENTIVE SYSTEM AND TO
ELIMINATE CERTAIN DISTORTIONS CREATED BY ICM
CREDITS.
CRIMMINS

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